MINERALS COUNCIL
SOUTH AFRICA

IDC
Industrial Development Corporation

Machinery Equipment & Electronics – Funding

26 August 2022

Discussion outline

Industrial Development Corporation

1. Introduction to IDC
2. Business Model
3. Funding requirements
4. Machinery Equipment & Electronics focus areas
5. Funding Schemes

The primary mandate of the IDC is the development of industrial capacity - anchored in IDC founding Act, 1940

IDC Industrial Development Corporation

IDC's founding Act is as valid today as it was back in 1940:

*"…to **facilitate, promote, guide and assist in the financing of new industries and industrial undertakings and schemes** for the expansion, better organisation and modernisation of, and the more efficient carrying out of, operations in existing industries and industrial undertakings, to the end that the economic requirement of the Union (South Africa) may be met, and industrial development within the Union may be planned, expedited and conducted on sound principles."*

Achieved through identifying **sector development opportunities** aligned with policy objectives from the relevant government policies primarily the **NDP, NGP and IPAP**

While developing industrial capacity, IDC seek to achieve specific outcomes:

- Facilitating sustainable direct and indirect **employment**
- Promoting **entrepreneurial development** and growing the **SME** sector
- Supporting the **transformational impact** of communities and development of black industrialists, women and youth
- Growing **sector diversity** and increased localised production
- Improving **regional equity**, including the development of South African rural areas, underdeveloped provinces and economic development in the rest of Africa
- Promoting environmentally **sustainable** growth

Our business model is premised on a self funding basis

Sources of funds: other development banks
- Divestment of **mature equity investments**
- **Internal profits** from operations
- **3rd party managed funds**

We use this capital to provide funding to businesses in the form of loans and equity investments

Loan funding
- **Interest payments**
- **Capital payments**

Equity funding
- **Dividend receipts**
- **Capital growth and realisation**

Proceeds from this funding are used to repay borrowings, cover our costs and grow our balance sheet to re invest in future businesses

There is a need for the companies funded by the IDC to demonstrate financial sustainability as IDC relies on repayments and dividends to repay funders in domestic and international markets

IDC's Funding Products – Structured to meet business' needs

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Business Cycle Stage

- Project Development
- Start-ups
- Expansions
- Expansionary acquisitions
- Distressed businesses

We offer a compelling value proposition

1. **Broad product mix** ✓

Debt | Equity | Guarantees | Project Finance

2. **Project specific terms** ✓
   - Tenure
   - Repayment profile
   - Security
   - Pricing
3. **Technical assistance programmes** ✓
   - Pre-investment business support
   - Post-investment business support
   - Syndication/fundraising mandates

IDC Manufacturing Sector

IDC Industrial Development Corporation

AUTOMOTIVE & TRANSPORT EQUIPMENT

Offering funding as well as industry and project development support to businesses involved in developing the automotive, rail, aerospace and ship industries.

MACHINERY, EQUIPMENT & ELECTRONICS

Offering finance, and where relevant, technical assistance to a range of manufacturers, with the aim of seeing a competitive and diversified local machinery and capital equipment industry.

CHEMICALS, MEDICAL & INDUSTRIAL MINERAL PRODUCTS

Our Chemicals, Medical & Industrial Mineral Products Strategic Business Unit (SBU) supports and promotes entrepreneurship, industrial development and strategic partnerships by building competitive industries and enterprises in South Africa and the rest of Africa.

TEXTILES & WOOD PRODUCTS

Offering support to a variety of enterprises across the sector, ranging from creators of home décor to leather goods producers to manufacturers of natural synthetic fabrics.

Machinery Equipment & Electronics

Industrial Development Corporation

Globally and locally competitive downstream manufacturing of machinery

Mining equipment:

includes both under and above ground equipment, heavy excavators, drilling machines, crushing, conveying equipment, underground haulers, continuous miners and rock loaders, dump trucks, tunnelling equipment and equipment for treating extracted minerals.

Trackless Mobile Machine

Construction equipment include:

Graders, diggers and backhoe loaders, cranes, bulldozers, dump trucks, concrete mixers, as well as compactors and other road construction equipment together with mining equipment.

Agricultural vehicles include:

Tractors, combine harvesters and smaller spraying, irrigation and baling machines.

Manufacture of lifting and handling equipment include:

Cranes, lifts, elevators, conveyors, specialized parts for lifting and handling including buckets, shovels, grabs. Machines for the mechanical handling of materials, goods or people other than transport equipment. Agriculture and forestry equipment, food processing equipment and textile and apparel equipment.

Machinery, Equipment & Electronics

Sub Sector 2

Manufacture of

- Pumps
- Compressors
- Taps
- Valves
- Actuators
- Bearings
- Gears, gearing and driving elements
- Ovens, furnaces and furnace burners

Machinery, Equipment & Electronics

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Sub Sector 3

Manufacture of

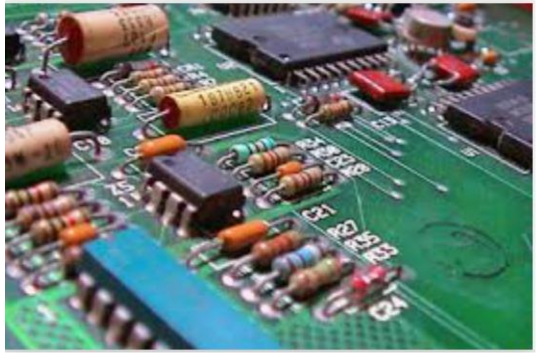
- Electrical Motors
- Transformers
- Boilers
- Turbines
- Electrical Substations
- Switchgears
- Wind Turbines
- Solar Panels
- Cables
- Overhead Pylons
- Control & Instrumentation
- Power Batteries
- Fuel Cells

Machinery, Equipment & Electronics

Sub Sector 4

Manufacture / assemble of electronic equipment

- Industrial Electronics
- Consumer Electronics
- Data Processing Electronics
- Wireless Electronics



Manufacture/assemble of household appliances

Machinery, Equipment & Electronics

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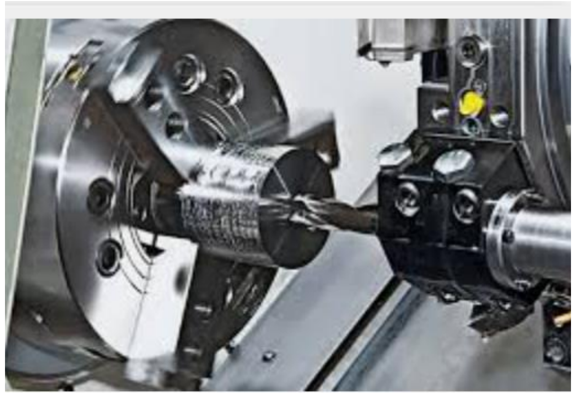
Other Areas

- ➢ Engines and turbines, except aircraft and vehicle
- ➢ Refrigerating or freezing equipment for commercial purposes

- **Manufacture of special purpose machinery**
- ➢ Manufacture of machine-tools


Special Schemes GRO-E

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R 950 Million
Fund Size -B/S

1) GRO-E YOUTH SCHEME

- Aim: To encourage youth entrepreneurship and employment creation, thereby expanding South African production capacity.

QUALIFYING CRITERIA

- Available to South Africans and permanent residents up to and inclusive of the age of 35 years at the time of final approval;
- Youth shareholding should be at least 26%;
- Youth operational involvement in the business;
- Applicant can be a start-up or expansion within South Africa;
- Cost per job of up to R750 000 for the duration of funding;
- Applicant to meet the BBBEE requirements of the IDC – level 4 or have a plan to achieve this within 24 months; and
- Own contribution will be determined by the financial capacity of the entrepreneur and the cash flow profile of the business

Special Schemes - GRO-E

GRO-E YOUTH SCHEME – Instrument Pricing

- Equity, quasi equity and loans;
- Minimum of R1 million and Maximum of R50 million per transaction;
- Pricing to apply as follows:
- More than 26% Youth Owned – **Prime less 2%; Equity – 6% RATIRR;** and
- More than 50% Youth Owned – **Prime less 3%; Equity – 5% RATIRR.** Discounted equity pricing only applicable for the youth equity portion
- First draw must occur within 1 year from approval of funding by the IDC or pricing reverts to normal IDC pricing; and

Special Schemes - MCEP

R 2 Billion
Fund Size
O/B/S

2.1) MANUFACUTRING COMPETITIVENSS EHNHANCEMENT PROGRAMME (MCEP)

- Aim: To assist manufacturing companies with working capital.
- Aim: To provide finance to Black Industrialists for the acquisition of plant and equipment.

QUALIFYING CRITERIA - Working Capital Requirements

- Start-ups and expansions;
- Only applicable to manufacturers under Standard Industrial Classification Code 3;
- Applicant may not contemplate workforce reductions during the term of the facility;
- Applicant required to achieve **BBBEE Level 4 within 24 months;**
- MCEP funds are blended at a leverage level of at least 20% to 40% funding from IDC; and
- Pre and post Business Development provided at a maximum of R3 million per applicant.

INSTRUMENT PRICING

- Limited to R30 million per applicant;
- Priced at a **fixed rate of 2.5%;**
- Maximum term is 48 months, including moratorium;
- First drawdown must occur within 6 months from approval date; and

Special Schemes

2.2) MANUFACUTRING COMPETITIVENSS EHNHANCEMENT PROGRAMME (MCEP)

- Aim: To provide finance to Black Industrialists for the acquisition of plant and equipment.

QUALIFYING CRITERIA – Plant & Equipment

- Only applicable to **Black Industrialists' businesses**;
- Only available for plant and equipment requirements;
- Applicable to start–up businesses, expansions and expansionary acquisitions;
- Applicant may not contemplate workforce reductions during the term of the facility;
- Only applicable to manufacturers under Standard Industrial Classification Code 3;
- Applicant will be required to achieve BBBEE Level 4 within 24 months;
- MCEP funds are blended at a leverage level of at least 20% to 40% funding from IDC; and
- Pre and post Business Development will be provided at a maximum of R3 million per applicant

Instrument Pricing

- Limited to R30 million per applicant;
- Priced at a **fixed rate of 2.5%;**
- Maximum term is 84 months, including moratorium;
- First drawdown must occur within 12 months from approval date; and

MCEP - Distress Programme

Industrial Development Corporation

R 350 Billion
Fund Size
O/B/S

MANUFACUTRING COMPETITIVENSS EHNHANCEMENT PROGRAMME (MCEP)

- Aim: The objective of MCEP Economic Distress Programme is to support companies in distress that adopt bankable turnaround strategies.

QUALIFYING CRITERIA –

- Available to companies that are financially distressed and not as a result of deeper structural issues, mismanagement or operating inefficiencies.
- Support provided to a company which is unlikely to pay all of its debt as they become due and payable for the upcoming six months.
- Available to a company that is unable to fund its operating activities within the immediate ensuing six months.
- Available to companies with a sustainable business plan. With the support provided the company must show that it can recover.
- Must demonstrate strong business fundamentals - experiencing temporary credit difficulties.
- Assistance cannot be open-ended, therefore intervention plans must show the business case recovering within a reasonable timeframe of 18 – 36 months.

MCEP – Distress

2.2) MANUFACUTRING COMPETITIVENSS EHNHANCEMENT PROGRAMME (MCEP)

Instrument Pricing

- Only applicable through debt funding instrument.
- Limited to R30 million per applicant in total.
- Priced at a fixed rate of **0%** for the first 18 months, thereafter at a fixed rate of **2.5%** per annum.
- Funding provided will be blended with IDC on a maximum of 80% funding from MCEP.
- Maximum term for Working Capital and Plant & Equipment loans is 60 months, including moratorium.

Special Schemes - UIF

R 5 Billion
Fund Size B/F

3) UIF (II) - INSTRUMENT PRICING

- Aim: To contribute towards sustainable job creation and retention by supporting job creating transactions while providing concessionary funding.

QUALIFYING CRITERIA

- Applicant can be a start-up and existing businesses whose applications are geared to saving and/or creating jobs;

- New jobs 0.8 jobs for every R 1 Million. Employment Intensity Ratio (EIR) falls away if minimum 100 jobs created
- Sustained jobs R863 200 and is to be calculated as the total funding required divided by the total number of existing jobs
- Jobs Saved (distressed funding) R825 600 and is to be calculated as the total funding required divided by the total number of existing jobs to be saved
- Funds are blended at a leverage level with normal IDC risk-priced funding (i.e. excludes off-balance sheet and other IDC concessionary funding);
- Applicants need to demonstrate compliance with the UIF regulations (i.e. existing businesses to demonstrate that all its employees are registered with UIF as well as that monthly and annual contributions are up to date prior to the loan being disbursed) and all successful applicants to provide confirmation of compliance (letter of good standing) to IDC on an annual basis during the funding period;
- No double dipping; i.e. transactions previously funded utilizing UIF funds (whether it be for job creation or job saving) cannot be considered for funding again to save jobs under the UIF II; and

Transactions in distress (job saving) must not be paying dividends to its shareholders for the period of the loan.

Special Schemes - UIF

UIF (II)

Instruments and Pricing.

- Loans;

Limited to:

- For transactions whose funding is calculated utilizing EIR or minimum jobs per transaction –R200m
- For expansionary and distressed funding – R275m

Counterparty limit:

- Where EIR or minimum jobs per transaction criteria apply – counterparty limit is R500m.
- Where cost-per-job criteria apply – counterparty limit is R750m.

- Pricing is currently within the range from **5.9% to 8.9%. Discounts** from maximum pricing is based on the client’s developmental scores, BI status and job efficiency at the time of the application (i.e. UIF II maximum pricing + Development Incentive (DI): BI + DI: development score + DI: job efficiency). The UIF rate is to be fixed for a period of 7 years and thereafter IDC’s normal risk-based pricing will apply, should the loan facility be longer than this period;
- First drawdown must occur within:
- 5 months from approval date for non-complex deals; and
- 7 months from approval date for complex deals.

DOWNSTREAM STEEL INDUSTRY COMPETITIVENESS FUND (DSICF)

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R 1.2 Billion
Fund Size Off
/Balance

DSCIF - INSTRUMENT PRICING

- Aim: To help the steel industry with an interest subsidy that offers discounts to qualifying clients.

QUALIFYING CRITERIA

- Applicant can be a start-up and expansion;
- Enterprises that create net additional employment are prioritized, particularly opportunities with greater labour intensity. Saved jobs are also be considered; and
- Applicant achieve B-BBEE Level 4 or submit a plan to achieve Level 4 within 36 months; or
  Be 50% or more Black owned (irrespective of B-BBEE score); or
  Where funding will lead to increased capacity or job creation

DOWNSTREAM STEEL INDUSTRY COMPETITIVENESS FUND (DSICF)

DSICF)

Instruments and Pricing.

- Loans;

Limited to:

- Quasi equity and loans;
- Interest subsidy : R1 million to R 50 million – 2.5% fixed for 5 years
  Greater R50 million to R75 million – Prime for 5 years.

A key eligibility criteria for DSICF is that only companies with total asset base of less than R80 million OR annual turnover of less than R100 million, will qualify.

- Interest rate subsidy for End User Finance transaction: R1 million to R 75 million – 2.5% fixed for 5 years

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